Attachment 2 - Background on the Funds

Sources of Investment Funds

Sources of investment funds managed by staff include working capital for cash management purposes as well as reserves and reserve funds.

Working Capital

The City retains necessary funds on hand to provide bridge financing between the time when expenditures, such as staff payroll and construction contractor payments, are required and the time when major cash inflows, such as tax and water payments and debenture issuance proceeds, are received. These funds are typically available for investment over short periods (typically less than a year) and are invested in the Money Market Portfolio.

Reserves and Reserve Funds

Reserves and reserve funds have been established by the City to address the following types of long-term expenditure needs:
Growth-related infrastructure expansion (funded by Development Charges paid by developers)
Land acquisition
Replacement of City vehicles
Capital financing
Unanticipated City and ABC's operating budget shortfalls
Employee benefits

Most of the amounts designated for these reserves and reserve funds are not required in the short term and can be invested over a longer term (greater than one year) in order to improve investment returns.

Sinking Funds

The City of Toronto established the Sinking Fund under the City of Toronto Act, 2006. The sole purpose of this money is debt repayment.

Debt can only be issued for long-term capital projects approved by City Council and cannot be issued to fund operating budget items. Each new debenture issue is completed in either a 10, 20, or 30-year term to maturity with an accompanying by-law that provides a schedule of payments (contributions) to the Sinking Fund. There is an assumed rate of investment return that is built into the schedule of payments on each issue. Higher assumed rates of investment return would result in lower contributions. The opposite would be true for lower assumed rates of return.

At maturity, the contributions plus the earnings should pay the full amount (par value) of the debenture. Any shortfall would require an additional payment by the City. Surpluses are kept within the Sinking Fund unless otherwise approved by Council to offset any potential future deficits.